

Testimony by Robert L. Johnson
Presented to the
Senate Committee on Commerce, Science and Transportation
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Mr. Chairman, Senator Hollings, and Members of the Committee, my name is Robert Johnson. I am founder and Chief Executive Officer of BET Holdings, Inc., a multi-media company whose principal business is the operations of the BET Cable Network, a 24-hour basic cable programming service that reaches 60 million cable households.

From an initial investment of \$500,000 by Tele-Communications, Inc. in 1980, BET Holdings celebrates its 20th Anniversary with a market capitalization of approximately \$2.5 billion dollars and is the preeminent business serving the entertainment and information needs of African Americans.

The recently announced acquisition of US Airways by United Airlines has created for me another historic and exciting opportunity. I have agreed to purchase certain assets currently operated by US Airways out of Reagan National Airport and will be launching DC Air. I do so not to create an African American owned airline, though it will be that. I do so not just to make sure that air transportation remains competitive, though I will do that. Rather, I do so to build a great and successful company that I believe with all my heart will benefit the Washington area, offer high quality service and value to passengers traveling to and from DC, and make us all proud that “our airline” is the best to fly.

My vision for DC Air is straightforward:

- to build on the well-established East Coast service from Washington’s National Airport that Washington-area passengers have come to rely on;
- to provide safe, reliable, high-quality service, at competitive prices to customers and communities in this area;

- to compete vigorously on price and service in the markets we serve;
- to facilitate the growth and economic development that accompanies air service; and
- to develop and maintain an airline that the Washington community will be proud to call its hometown carrier.

In terms of its development and its creation, DC Air is a product of the United/US Airways merger, and that is great news for consumers. Why?

The creation of a new airline is no small task in this intensely competitive industry. New entrant carriers face numerous obstacles such as high, fixed start-up costs, the lack of a strong identity, and an unproven route structure and business plan. DC Air, however, is not a typical airline startup company. Benefiting from the experience and expertise of United and US Airways personnel, we intend to build upon a proven network anchored at Washington's National Airport. DC Air will be a viable and totally independent competitor from Day One. At the same time, it will avoid the mistakes and pitfalls that often confront and, in many cases, overwhelm new entrant carriers in this industry. DC Air will be the largest carrier (measured by number of departures) at Washington's premier, close-in airport, offering 111 daily departures, flown by 37 aircraft, serving 43 airports, extending as far as Maine, Florida, and Kansas City. And as DC Air develops, we will assess opportunities to expand service to additional communities.

For over several decades in some cases, great American cities like Albany, Allentown, Birmingham, Buffalo, Burlington, Charleston, Columbia, Greensboro, Greenville, Huntsville, Knoxville, Lewisburg, Manchester, Morgantown, Norfolk, Roanoke, Rochester and Syracuse, among others, have enjoyed nonstop air service to the heart of the nation's capital. These communities have relied upon this extensive service network, which has provided significant commercial, trade, economic development, and governmental relations benefits for these important cities.

The network has been maintained during periods of economic growth and recession, during harsh winters and humid Washington summers. Sustained service to many of these cities is made possible by the efficiency of a network that is centered at the beautifully renovated, convenient Ronald Reagan Washington National Airport.

DC Air is fully committed to sustaining and enhancing this network of service that links these critical American cities to our nation's capital. As a new entrant, DC Air will provide frequent, competitively priced air service, ultimately with an all-jet fleet. Retaining the synergies of the current route system is absolutely vital to ensure the important access for these communities to Washington, D.C.

History clearly shows that as air carriers acquire the coveted, valued slots at Washington National, they use those slots in the most profitable way – in service to their hometown hub cities. In fact, excluding US Airways, the principal U.S. carriers serving National Airport only do so from their hubs or focus cities: America West from its hub in Columbus, Ohio; American from its hubs and international gateways in Chicago-O'Hare, Dallas, New York-JFK, and Miami; Continental from its hubs in Cleveland, Newark, and Houston; Delta from its hubs in Atlanta, Cincinnati, and Dallas, its New York-JFK international gateway, and its Delta Shuttle cities, New York-LaGuardia and Boston; Northwest from its hubs in Detroit, Memphis and Minneapolis; TWA from its hub in St. Louis and its New York-JFK international gateway; and United from its hub in Chicago O'Hare and its Miami international gateway.

Only US Airways, the current hometown, Washington-based carrier, offers breadth of service to the Washington passenger, serving not just its hubs in Charlotte, Philadelphia and Pittsburgh, but also 46 additional communities each day. That is why the creation of the hometown D.C. carrier is so critical to the preservation of a route system that has served medium and small cities throughout the eastern United States for so many decades. That is why the merger proposal reflects the strong conviction of each of the three principal players that not only must competition be preserved in the D.C. metropolitan area, but that new competition must come in the form of a carrier able, willing, and completely dedicated to preserving and

enhancing the existing network of service upon which the citizens of so many of these cities have come to rely.

The prospects for vigorous new competition and improved quality of service to these communities are boundless. DC Air is up to the challenge and is eager to assume the historic commitment to these great American communities by providing safe, reliable, high-quality service with outstanding employees.

I appreciate that the airline industry is unique in many ways, and I further appreciate that the industry is highly unionized. I welcome all employees – whether union or non-union – to the DC Air family. My plan is to provide fully competitive compensation and benefits packages, while fostering an environment of participation and common goals for all our employees. This plan, I believe, will result in high job satisfaction among DC Air employees, which, in turn, will translate into the top-quality service our passengers should expect and demand.

Startup of Operations

To assist in shaping and realizing the vision of DC Air, Bruce Ashby has been named acting President of DC Air. Bruce has 14 years of airline experience, most recently with US Airways, where he held the position of senior vice president – corporate development. Prior to that, he held the positions of senior vice president – planning and vice president – financial planning and analysis. Before joining US Airways in April 1996, he held corporate officer positions at Delta Air Lines, where he was vice president of marketing development, and at United Airlines, where he was vice president of financial planning and analysis and vice president & treasurer. Bruce played a key role in the formation of three “airline-within-an-airline” units: MetroJet by US Airways, Delta Express, and Shuttle by United, all of which were successfully launched and grown by these respective carriers, and continue to operate today. Bruce’s broad background at a senior management level in the areas of airline finance, planning, marketing, operations, and labor negotiations will prove invaluable to DC Air.

As I mentioned earlier, unlike a typical airline startup, which might begin with one or two airplanes flying one or two routes, DC Air will be a fully operational airline serving 43 communities from National Airport with 111 daily departures. This plan brings important consumer benefits, by providing nonstop service and a new, competitive force to the 43 communities that we plan to serve, 36 of which are served from Washington's Dulles airport as well.

To enable this level of startup, DC Air has entered into a memorandum of understanding with United Airlines, as part of the proposed United-US Airways merger, that will provide DC Air, from Day One, with the hard assets it requires to mount its operations. These include 222 departure and arrival slots at Washington National Airport; necessary gates and related airport facilities, for which DC Air will assume the leases; and the operations of one of its commuter airline subsidiaries, including the management staff, turboprop aircraft, and related assets. In addition, during a brief transition period in which DC Air will build its own fleet, United will ensure near-term aircraft availability through customary contractual "wet-lease" relationships for up to ten B-737-200 aircraft and up to 19 regional jet aircraft. In short, DC Air will have the necessary people, aircraft, and airport rights and facilities from Day One.

In addition to the Day One hard assets, United has agreed in the memorandum of understanding to provide DC Air, if DC Air so requests, with certain supporting services at market rates. These services are typically purchased by airlines, and include items such as fuel, occasional use gate agreements, station-handling contracts, and standard industry interline ticketing and baggage agreements. DC Air is free to purchase any and all of these services on the open market from the numerous other providers of such services.

It is critical to appreciate that none of these understandings compromises DC Air's independence.

We are rapidly moving through the process of turning the vision of DC Air into an operating reality. We have begun discussions with aircraft manufacturers in order to build our

long-term all-jet fleet of aircraft. We are drafting the definitive documentation with United Airlines to implement our memorandum of understanding. We will soon be entering into detailed discussions with the DOT and FAA to obtain the required permits and certificates. And, we are engaged in working with the federal, state and local governments and community leaders to ensure that their needs are met.

In addition, we are ready to begin discussions with other major airlines, such as American, Delta, Continental and Northwest, to seek out partnering opportunities such as code-sharing and frequent flyer arrangements. We see these as beneficial to our passengers, who would thus be able to earn frequent flyer miles in these other major airline programs while flying DC Air. We believe our service at National Airport will be perceived by these carriers as a desirable feature of their extended networks.

Service

DC Air's initial aircraft fleet will be composed of turboprop aircraft operated by DC Air employees, plus 19 regional jets obtained through an industry contractual relationship with current US Airways affiliates and 10 Boeing 737-200s obtained through a wet-lease arrangement with United Airlines.

Currently, the markets that DC Air will serve are flown by US Airways with 34% turboprop departures and 66% jet departures. Of the 111 daily departures to be flown by DC Air, 25% will be turboprops and 75% jet departures. We will move to an all-jet fleet of aircraft over the first few years of operation; ultimately 100% of DC Air's service will be flown by jets.

DC Air intends to retain service to the communities it serves. One of the key benefits that comes to the communities we serve is that we are purchasing from United all of the slots required to serve these communities. Were the slots to be divided up among several larger carriers, none of these carriers would have sufficient slots to serve all the communities and each would naturally tend to add service to high-volume markets, such as hubs and focus cities where

they already have a significant presence. Conversely, DC Air is committed to continuing service to all of our mid-size and smaller communities, and its sole focus is on serving these communities with the highest quality operation. Access by these 43 cities to the heart of the nation's capital will be assured.

Competition

DC Air will provide Day One competition to the Washington, DC area, with competitive pricing and high-quality service.

DC Air will offer nonstop competition to larger incumbent carriers from National Airport in eight of its 43 markets: Atlanta, Georgia; Charlotte and Raleigh-Durham, North Carolina; Columbus, Ohio; Detroit, Michigan; Ft. Lauderdale, Florida; and Philadelphia and Pittsburgh, Pennsylvania. These constitute 22 of its 111 daily departures, or 19%. All eight of these markets are also served from Washington's Dulles airport.

In addition, DC Air will compete in 28 markets with service currently offered from Dulles Airport: Albany, Buffalo, Rochester, Syracuse and White Plains, New York; Allentown, Pennsylvania; Hartford, Connecticut; Burlington, Vermont; Charleston, Columbia and Greenville, South Carolina; Greensboro, North Carolina; Charleston, West Virginia; Dayton, Ohio; Indianapolis, Indiana; Kansas City, Missouri; Nashville and Knoxville, Tennessee; Louisville, Kentucky; New Orleans, Louisiana; Norfolk, Richmond and Roanoke, Virginia; Portland, Maine; Providence, Rhode Island; and Jacksonville, Orlando, and Tampa, Florida. These constitute 70 of its 111 daily departures, or 63%.

In seven of its markets, DC Air will face no direct competition at National or Dulles airports. These include two designated Essential Air Service markets (Lewisburg and Morgantown, West Virginia), as well as Birmingham and Huntsville, Alabama; Little Rock, Arkansas; Manchester, New Hampshire; and West Palm Beach, Florida. Washington's National Airport represents the only nonstop link for these communities to the nation's capital.

Summary

DC Air is an airline that works. It works for our customers, who will receive top-quality service at competitive prices between Washington's premier airport and the forty-three other cities we plan to serve. It works for our many mid-size and small communities, because it will retain nonstop service to National from those communities that otherwise would likely be converted to connecting service over another carrier's hub. It works for our employees, who will enjoy the benefits of working for a competition-focused, all-jet carrier with a clearly defined mission. And it ensures that airline competition will grow and thrive here in Washington.